

AMERICAN LEGION HOSPITAL

FINANCIAL REPORT

DECEMBER 31, 2012

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**BROUSSARD, POCHÉ, LEWIS & BREAUX, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS

103 N. Ave. F  
Crowley, Louisiana 70526  
phone: (337) 783-5693  
fax: (337) 783-5115  
www.bplb.com

**Other Offices:**

Lafayette, LA  
(337) 988-4930  
Opelousas, LA  
(337) 942-5217  
New Iberia, LA  
(337) 364-4554

**Partners:**

Frank A. Stagno, CPA\*  
Scott J. Broussard, CPA\*  
L. Charles Abshire, CPA\*  
P. John Blanchet, III, CPA\*  
Martha B. Wyatt, CPA\*  
Mary A. Castille, CPA\*  
Joey L. Breaux, CPA\*  
Craig J. Viator, CPA\*  
John L. Istre, CPA\*  
Elizabeth J. Moreau, CPA\*  
Lonnie J. Hebert, CPA\*  
Robert M. DeRouen, Jr. CPA\*

**Directors:**

Jason P. LeBlanc, CPA  
Laurel L. Montagnet, CPA  
Valeri A. Grayson, CPA

**Retired Partners:**

Sidney L. Broussard, CPA 1925-2005  
Leon K. Poché, CPA 1984  
James H. Breaux, CPA 1987  
Erma R. Walton, CPA 1988  
George A. Lewis, CPA 1992  
Geraldine J. Wimberley, CPA 1995  
Lawrence A. Cramer, CPA 1999  
Ralph Friend, CPA 2002  
Donald W. Kelley, CPA 2005  
George J. Trappey, III, CPA 2007  
Terrel P. Dressel, CPA 2007  
Herbert Lemoine II, CPA 2008  
Mary T. Miller, CPA 2011

*Members of American Institute of  
Certified Public Accountants  
Society of Louisiana Certified  
Public Accountants*

\* A Professional Accounting Corporation

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
American Legion Hospital  
Crowley, Louisiana

We have audited the accompanying consolidated financial statements of American Legion Hospital (a nonprofit organization) which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Legion Hospital as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Broussard, Poche, Lewis & Breaux, L.L.P.*

Crowley, Louisiana  
May 28, 2013

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AMERICAN LEGION HOSPITAL  
CONSOLIDATED BALANCE SHEETS  
December 31, 2012 and 2011  
(In Thousands)

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,502	\$ 1,106
Certificates of deposit	1,390	1,633
Patient accounts receivable, net of estimated uncollectibles of \$2,775 at 2012 and \$2,831 at 2011	7,513	6,708
Intermediary receivable on cost reports	169	393
Other receivables	64	82
Inventories	1,312	1,300
Prepaid expenses	757	885
Notes receivable	<u>106</u>	<u>137</u>
Total current assets	<u>\$ 13,813</u>	<u>\$ 12,244</u>
<b>OTHER ASSETS</b>		
Assets limited as to use:		
Cash and cash equivalents	\$ 1,568	\$ 1,541
Certificates of deposit	6,421	6,908
Investments	478	1,023
Investments in equity interest	168	155
Notes receivable	34	75
Restricted assets:		
Cash and cash equivalents	13	14
Certificates of deposit	<u>260</u>	<u>259</u>
Total other assets	<u>\$ 8,942</u>	<u>\$ 9,975</u>
<b>PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation of \$25,609 at 2012 and \$22,590 at 2011</b>		
	<u>\$ 11,786</u>	<u>\$ 13,783</u>
Total assets	<u>\$ 34,541</u>	<u>\$ 36,002</u>

See Notes to Consolidated Financial Statements.

	<u>2012</u>	<u>2011</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,668	\$ 1,669
Health insurance claims payable	185	185
Leases payable, due in one year	-	50
Notes payable, due in one year	4,649	3,079
Accrued expenses	<u>965</u>	<u>904</u>
Total current liabilities	<u>\$ 7,467</u>	<u>\$ 5,887</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, due after one year	\$ 617	\$ 1,631
Long-term accrued expenses	<u>10</u>	<u>10</u>
Total long-term liabilities	<u>\$ 627</u>	<u>\$ 1,641</u>
<b>NET ASSETS</b>		
Unrestricted:		
American Legion Hospital	\$ 26,066	\$ 28,063
Noncontrolling interest in subsidiaries	<u>108</u>	<u>138</u>
	\$ 26,174	\$ 28,201
Permanently restricted - Trust	<u>273</u>	<u>273</u>
Total net assets	<u>\$ 26,447</u>	<u>\$ 28,474</u>
 Total liabilities and net assets	 <u>\$ 34,541</u>	 <u>\$ 36,002</u>

AMERICAN LEGION HOSPITAL  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Years Ended December 31, 2012 and 2011  
(In Thousands)

	<u>2012</u>	<u>2011</u>
UNRESTRICTED NET ASSETS		
Unrestricted revenue:		
Net patient service revenue - hospital	\$ 33,318	\$ 32,675
Net patient service revenue - clinic practices	284	424
Net patient revenue - Open Air MRI	<u>719</u>	<u>780</u>
Net patient service revenue	\$ 34,321	\$ 33,879
Less: provision for bad debts	<u>(3,768)</u>	<u>(3,120)</u>
Net patient service revenue less provisions for bad debts	\$ 30,553	\$ 30,759
Other operating revenue	<u>2,473</u>	<u>1,602</u>
Total operating revenue	<u>\$ 33,026</u>	<u>\$ 32,361</u>
Operating expenses:		
Routine and nursing services	\$ 10,040	\$ 9,967
Ancillary services	9,820	9,415
Physician offices	310	441
Administrative services	1,048	1,019
Fiscal and support services	6,263	6,077
General services	4,174	4,166
Depreciation and amortization	3,265	2,841
Interest	<u>207</u>	<u>181</u>
Total operating expenses	<u>\$ 35,127</u>	<u>\$ 34,107</u>
Deficiency of operating revenue over operating expenses	<u>\$ (2,101)</u>	<u>\$ (1,746)</u>
Nonoperating revenue (expense):		
Interest revenue	\$ 104	\$ 161
Net unrealized gain/(loss) on investments	-	4
Income (loss) on equity investment	28	(2)
Other	<u>54</u>	<u>140</u>
Total non-operating revenue	<u>\$ 186</u>	<u>\$ 303</u>
Decrease in unrestricted net assets before minority interest	\$ (1,915)	\$ (1,443)
Noncontrolling interest in subsidiaries	<u>(82)</u>	<u>(115)</u>
Decrease in unrestricted net assets	\$ (1,997)	\$ (1,558)
PERMANENTLY RESTRICTED ASSETS (TRUST)		
Interest revenue net of transfers	<u>-</u>	<u>-</u>
Decrease in net assets	<u>\$ (1,997)</u>	<u>\$ (1,558)</u>

See Notes to Consolidated Financial Statements.



AMERICAN LEGION HOSPITAL

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
Years Ended December 31, 2012 and 2011  
(In Thousands)

	Unrestricted		Permanently	
	American Legion Hospital	Noncontrolling Interest in Subsidiaries	Restricted- Trust	Total
Balance - December 31, 2010	\$ 29,621	\$ 125	\$ 273	\$ 30,019
Increase (decrease) in net assets	(1,558)	115	-	(1,443)
Distributions	-	(102)	-	(102)
Balance - December 31, 2011	\$ 28,063	\$ 138	\$ 273	\$ 28,474
Increase (decrease) in net assets	(1,997)	82	-	(1,915)
Distributions	-	(112)	-	(112)
Balance - December 31, 2012	<u>\$ 26,066</u>	<u>\$ 108</u>	<u>\$ 273</u>	<u>\$ 26,447</u>

See Notes to Consolidated Financial Statements.

AMERICAN LEGION HOSPITAL  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2012 and 2011  
(In Thousands)

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (1,997)	\$ (1,558)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	3,265	2,841
Loss on disposal of assets	1	(88)
Provision for doubtful receivables	3,768	3,120
Other - noncontrolling interest	(30)	13
Net unrealized (gain) loss on investments	-	(4)
(Gain) loss on equity interest	(28)	2
Change in current assets and liabilities:		
(Increase) decrease in receivables	(4,331)	(3,680)
(Increase) decrease in inventories	(12)	(117)
(Increase) decrease in prepaid assets	128	170
(Increase) decrease in notes receivable	72	100
(Decrease) increase in payables	(1)	473
(Decrease) increase in accrued expenses	<u>61</u>	<u>35</u>
Net cash provided by operating activities	<u>\$ 896</u>	<u>\$ 1,307</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Redemption (purchases) of investments	\$ 560	\$ (96)
Redemption (purchases) of certificates of deposit, net of renewals	729	1,113
Purchase of property and equipment	(1,272)	(3,556)
Proceeds from sale of property and equipment	<u>3</u>	<u>242</u>
Net cash provided (used) in investing activities	<u>\$ 20</u>	<u>\$ (2,297)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term borrowing	\$ (1,296)	\$ (2,013)
Principal payments on capital leases	(50)	(50)
Proceeds from issuance of debt	<u>1,852</u>	<u>2,081</u>
Net cash provided by financing activities	<u>\$ 506</u>	<u>\$ 18</u>
Increase (decrease) in cash and cash equivalents (subtotals forward)	<u>\$ 1,422</u>	<u>\$ (972)</u>

(Continued)

AMERICAN LEGION HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
Years Ended December 31, 2012 and 2011  
(In Thousands)

	<u>2012</u>	<u>2011</u>
Increase (decrease) in cash and cash equivalents (subtotals forwarded)	\$ 1,422	\$ (972)
Cash and cash equivalents:		
Beginning	<u>2,661</u>	<u>3,633</u>
Ending	<u>\$ 4,083</u>	<u>\$ 2,661</u>
CASH AND CASH EQUIVALENTS SHOWN ON BALANCE SHEETS		
Cash and cash equivalents	\$ 2,502	\$ 1,106
Restricted and assets limited as to use cash and cash equivalents	<u>1,581</u>	<u>1,555</u>
	<u>\$ 4,083</u>	<u>\$ 2,661</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 195</u>	<u>\$ 175</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of equipment through note payable	<u>\$ -</u>	<u>\$ 50</u>
Purchase of equipment through capital lease obligations	<u>\$ -</u>	<u>\$ 100</u>

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AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

American Legion Hospital (the "Hospital") is incorporated under the State of Louisiana as a nonprofit corporation for scientific, educational, charitable, and patriotic purposes. The Hospital provides inpatient, outpatient and emergency care services for residents of Acadia Parish and the surrounding area.

Principles of consolidation:

The consolidated financial statements include the accounts of Professional Arts Center, Inc., a 67% owned subsidiary of the Hospital; Open Air MRI of Acadiana, L.L.C., a 51% owned subsidiary of the Hospital; and ALH Health Ventures, L.L.C., a 100% owned subsidiary of the Hospital. All significant intercompany accounts and transactions have been eliminated.

Significant accounting policies:

The Hospital reports in accordance with the "Health Care Organizations Audit Guide" published by the American Institute of Certified Public Accountants. Accounting policies that are unique to nonprofit hospitals are as follows:

Funds restricted as to use by the donor are recorded in restricted net assets and resources set aside for board designated funds are considered to be unrestricted.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital has elected to assess "significance" at the consolidated reporting entity level in regards to the presentation of bad debts in the consolidated financial statements of operations per Accounting Standards Update ("ASU") No. 2011-07.

Other accounting policies followed by the Hospital which are not unique to hospital reporting are as follows:

Inventories are stated at the lower of cost or market. As applied to cost, the weighted average cost is used to value inventory items.

Loan costs are amortized over the life of the loan using the straight-line method.

AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Property, plant, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the estimated useful life of the equipment. Such is included in depreciation and amortization in the consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction is capitalized as a component of the cost of acquiring those assets.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. A review of such assets of the Hospital has not indicated any material effect on the Hospital's financial position.

Patient accounts receivables are carried at the original billed amount less deductions for contractuals and other discounts as well as an estimate for uncollectible accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for uncollectible accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Patient accounts receivables are written-off when deemed uncollectible which occurs after management has used reasonable collection efforts. Recoveries of patient accounts receivables previously written-off are recorded when received. The Hospital does not have a policy of charging interest on past due balances in patient accounts receivable.

For purposes of reporting cash flows, the Hospital considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

All costs associated with advertising and marketing are expensed in the year incurred. Advertising expense for the years ended December 31, 2012 and 2011 amounted to \$32 and \$30, respectively.

Uncertainty in income taxes:

The authoritative guidance in Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the consolidated financial statements. Under the requirements of this guidance, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. There are no material unrecorded tax liabilities as of December 31, 2012 and 2011.

AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Reclassifications:

Certain reclassifications have been made in the consolidated financial statements at December 31, 2012, in order to be consistent with reporting in the current year. These reclassifications had no effect on previously reported retained earnings or net income.

Note 2. Net Patient Service Revenues

*Accounts Receivable and Net Patient Service Revenue*

The Hospital recognizes accounts receivable and patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered (see description of third-party payor payment programs below). For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of discounted rates under the Hospital's self-pay patient policy. Under this policy, a patient who has no insurance and is ineligible for any government assistance program, is offered a prompt pay discount which approximates what would be billed to a commercially insured patient.

Patient service revenue for the Hospital, net of contractual allowances and discounts (but before the provision for bad debts) for the years ended December 31, 2012 and 2011, recognized in the period from these major payor sources based on primary insurance designation, is as follows:

	2012		
	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts) - hospital	<u>\$ 29,391</u>	<u>\$ 3,927</u>	<u>\$ 33,318</u>
	2011		
	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts) - hospital	<u>\$ 28,895</u>	<u>\$ 3,780</u>	<u>\$ 32,675</u>

Deductibles and copayments under third-party payment programs within the third-party payor amount above are the patient's responsibility and the Hospital considers these amounts in its determination of the provision for bad debts based on collection experience.

Accounts receivable are also reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 2. Net Patient Service Revenues (Continued)

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients which includes both patients without insurance and patients with deductibles and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts totaled \$2,775 and \$2,831 at December 31, 2012 and 2011, respectively. The allowance for doubtful accounts for self-pay patients was approximately 47% of self-pay accounts receivable as of December 31, 2012 and 2011. Overall, the total of self-pay discounts and write-offs has not changed significantly for the year ended December 31, 2012. The Hospital has not experienced significant changes in write-off trends even though the Hospital has changed its charity care policy effective for 2011 to comply with the Affordable Care Act and Internal Revenue Code Section 501(r)(5) which limits the amounts charged to those who qualify for financial assistance to the best insurance rate or Medicare rate for service.

*Third-Party Payment Programs*

The Hospital has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

•**Medicare** - Inpatient acute care services (and related capital costs) and inpatient psychiatric services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital's outpatient services related to Medicare beneficiaries are reimbursed either on a prospective determined rate or a fee schedule. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2006.

•**Medicaid** - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, subject to certain limits, while other outpatient services are reimbursed on a fee schedule. The Hospital is reimbursed for outpatient services at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2006.



AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 2. Net Patient Service Revenues (Continued)

Estimated amounts due from Medicare and Medicaid services are included in receivables at year-end. During the years ended December 31, 2012 and 2011, approximately 86% and 85%, respectively, of the Hospital's gross inpatient revenue was furnished to Medicare and Medicaid beneficiaries, while 53% and 50%, respectively, of the Hospital's gross outpatient revenue was furnished to Medicare and Medicaid beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance with all applicable laws and regulations. As a result of retroactive adjustments of certain prior year cost reports, the Hospital recorded changes in estimates resulting in a decrease in net patient services revenues of \$1 for 2012 and an increase in net patient service revenues of approximately \$5 for 2011.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and fee schedules.

There are various proposals at the Federal and State levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the Federal and State governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Hospital.

Note 3. Charity Care

The Hospital adopted the ASU "Measuring Charity Care for Disclosure" in 2011. The ASU requires all entities to disclose the amount of charity care provided using a cost-based measurement basis. The ASU will have no effect on the amounts reported in the consolidated financial statements. The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than their established rates. The Hospital does not pursue collection of amounts determined to qualify as charity care so they are not reported as net patient service revenue. The amounts of direct and indirect costs foregone for services and supplies furnished under the Hospital's charity care policy totaled approximately \$134 and \$118 for the years ended December 31, 2012 and 2011, respectively, and is based on a ratio of the Hospital's operational costs to its gross charges. Effective for 2011, the Hospital changed its charity care policy in order to comply with the Affordable Care Act and Internal Revenue Code Section 501(r)(5) which limits the amounts charged to those who qualify for financial assistance to the best insurance rate or Medicare rate for service. The above charity care cost calculated for 2012 and 2011 is based on this reduced charge rate. The Hospital did not receive any reimbursement for support of charity care in 2012 and 2011.

AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 4. Notes Receivable

The detail of notes receivable at December 31, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Notes receivable - employees, net of allowance of \$21 and \$21, respectively	\$ 14	\$ 35
Notes receivable - physician, net of allowance of \$0 and \$0, respectively	119	170
Notes receivable - other	<u>7</u>	<u>7</u>
	<u>\$ 140</u>	<u>\$ 212</u>

In the normal course of business, the Hospital contracts with non-employee physicians that it has recruited to move to the facility's geographical area to establish a practice. Under the contract, the Hospital normally makes payments for medical education debt, net income guarantees, stipends and capital purchases. These payments are considered a loan and must be paid back by the physician, unless certain terms under the contract are met including years of practice within the area. Normally, if all conditions are met under the contract these payments are amortized, to expense, over the contract term.

The Hospital also contracts with employees, whereby the Hospital loans specified amounts to the employee for medical education. These payments are amortized over the terms of the contract upon the employees' completion of specified education. If terms of the contract are not met, the employee is required to reimburse the Hospital the unamortized amount.

Note 5. Assets Limited as to Use

The composition of assets limited as to use at December 31, 2012 and 2011 is set forth in the following table. Investments are stated at fair value.

Board designated for improvements and replacement of Hospital assets as they are retired and for insurance losses that may be within the policy deductibles:

	<u>2012</u>	<u>2011</u>
Cash	\$ 22	\$ 20
Certificates of deposit	5,539	6,033
Louisiana Hospital Investment Pool	<u>53</u>	<u>602</u>
	<u>\$ 5,614</u>	<u>\$ 6,655</u>

Board designated for self-insurance program for hospitalization and medical coverage for the employees of the Hospital:

Cash	\$ 1,546	\$ 1,521
Certificates of deposit	882	875
Louisiana Hospital Investment Pool	<u>425</u>	<u>421</u>
	<u>\$ 2,853</u>	<u>\$ 2,817</u>
Total assets limited as to use	<u>\$ 8,467</u>	<u>\$ 9,472</u>

# AMERICAN LEGION HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands)

### Note 5. Assets Limited as to Use (Continued)

Income derived from the Board designated funds at December 31, 2012 and 2011 was \$84 and \$128, respectively.

Investments held in the Louisiana Hospital Investment Pool are carried at market or appraised value, and realized and unrealized gains and losses are reported in the consolidated statements of operations. Activity for the years ended December 31, 2012 and 2011 is summarized below:

	2012	2011
Investments, beginning of year	\$ 1,023	\$ 1,007
Contributions	-	-
Investment returns (net of expenses of \$2 for 2012 and \$3 for 2011):		
Interest revenue	\$ 5	\$ 12
Redemptions	(550)	-
Net unrealized gain (loss)	-	4
Total return on investments	(545)	16
Investments, end of year	<u>\$ 478</u>	<u>\$ 1,023</u>

### Note 6. Property, Plant, and Equipment

The details of property, plant, and equipment and the related accumulated depreciation at December 31, 2012 and 2011 are summarized as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 646	\$ -	\$ 646	\$ -
Land improvements	636	561	636	543
Building and improvements	12,855	9,430	12,804	9,233
Equipment	22,866	15,618	21,950	12,797
Equipment under capital lease obligations	-	-	100	17
Construction in progress	392	-	237	-
	<u>\$ 37,395</u>	<u>\$ 25,609</u>	<u>\$ 36,373</u>	<u>\$ 22,590</u>

Included in the above, construction in progress includes amounts dealing with the northern building expansion, renovations to the Hospital's infusion center and a new health information system for the Hospital. The amount of interest capitalized in the years ended December 31, 2012 and 2011 was \$0 and \$8, respectively.

Depreciation expense for the years ended December 31, 2012 and 2011 amounted to \$3,265 and \$2,841, respectively. Accumulated amortization for equipment under capital lease obligations was \$0 and \$17 at December 31, 2012 and 2011, respectively.

# AMERICAN LEGION HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands)

### Note 7. Trust Agreement (Permanently Restricted Net Assets)

On July 23, 1993, the Hospital placed \$250 into trust. American Legion Post 15 is the income beneficiary and the Hospital is the principal beneficiary. The Post will receive 90% of the income derived from the trust's investments. The remaining 10% can be used to pay expenses of the trust. Any remaining income after expenses is to be reinvested. Investments are stated at amortized cost, which approximates fair value.

The assets of the trust are as follows:

	<u>2012</u>	<u>2011</u>
Cash in bank	\$ 13	\$ 14
Certificate of deposit	<u>260</u>	<u>259</u>
Total	<u>\$ 273</u>	<u>\$ 273</u>

### Note 8. Employee Retirement Plan

The Hospital offers a profit sharing plan to its employees. New participants must have one year of service in order to be eligible in the plan. The Hospital contributions vest over a six year graded vesting schedule for the years ended 2012 and 2011. All participants must have worked 1,000 hours (including prior year service) and be employed by the Hospital at December 31 of the plan year in order to be eligible to share in the Hospital's contributions. Contributions to the plan are at the discretion of the Hospital's board. The Hospital did not make any contributions to the plan for the years ended December 31, 2012 and 2011.

The Hospital also offers a 403(b) plan that is available to all Hospital employees, in which only employees contribute to the plan.

### Note 9. Concentrations of Credit Risk

The Hospital maintains multiple accounts at several local financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250. During the year, the Hospital maintained deposits in these financial institution that exceeded the FDIC coverage. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables at December 31, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	28%	23%
Medicaid	6	6
Other third-party payors and patients	<u>66</u>	<u>71</u>
	<u>100%</u>	<u>100%</u>

AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 10. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 30,088	\$ 29,473
General and administrative	<u>5,039</u>	<u>4,634</u>
	<u>\$ 35,127</u>	<u>\$ 34,107</u>

Note 11. Commitments and Contingencies

Self-Insured Medical Benefits

The Hospital has a self-insurance program for hospitalization and medical coverage for substantially all of its employees. The Hospital limits its liability through the use of a specific stop-loss policy from a reinsurer in an amount of \$140 per person per plan year for 2012 – 13, \$125 per person per plan year for 2011 – 12 and \$100 per person per plan year for 2010 – 11. Management believes they have adequately provided for all claims incurred in the accompanying consolidated financial statements.

Professional Liability Risk

The Hospital participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400 in coverage per occurrence above the first \$100 for which the Hospital is at risk. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100 per occurrence and limiting the Patient's Compensation Fund's exposure to \$400 per occurrence.

Assets limited as to use include a certificate of deposit in the amount of \$125 at December 31, 2012 and 2011, which is pledged to secure membership in the Louisiana Patient's Compensation Fund.

Litigation

The Hospital is involved in litigation arising in the course of business. The Hospital evaluates contingencies based upon the best available evidence. After consultation with legal counsel, management has recorded a provision for these claims in an amount of \$130 for 2012 and \$25 for 2011, which is included in payables on the consolidated financial statements. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited.

AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 11. Commitments and Contingencies (Continued)

Purchase Commitments

Effective November 1, 2011, the Hospital entered into an agreement to lease 58 compression pumps at no charge with a purchase commitment of three sleeves per pump, per month ending October 31, 2016. Effective November 2011, the Hospital also entered into an agreement to purchase 600 cataract packs over a 36 month period. The minimum estimated payments under the purchase commitment are as follows:

2013	\$	130
2014		112
2015		76
2016		64
	\$	<u>382</u>

Total purchases under this commitment were \$97 in 2012 and \$11 in 2011.

Note 12. Breakdown of Consolidated Net Income (Loss)

	American Legion Hospital	Professional Arts Center	ALH Health Ventures	Open Air MRI	Total	Elimination Entries	Consolidated Total
<u>2012</u>							
Net income (loss)	\$ (1,986)	\$ (8)	\$ 22	\$ 173	\$ (1,799)	\$ (198)	\$ (1,997)
<u>2011</u>							
Net income (loss)	\$ (1,568)	\$ (1)	\$ (2)	\$ 235	\$ (1,336)	\$ (222)	\$ (1,558)

Note 13. Fair Value of Financial Instruments

In accordance with ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* which was issued to increase the transparency in financial reporting of fair value instruments. The Hospital groups financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 13. Fair Value of Financial Instruments (Continued)

Level 2 — Valuations for assets and liabilities traded in less active dealer or broker markets. For example, municipal securities valuations are based on markets that are currently offering similar financial products. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis:

Fair Value Measurements at Reporting Date Using

	2012			
	Fair Value	Level 1	Level 2	Level 3
Louisiana Hospital Investment Pool	\$ 478	\$ -	\$ -	\$ 478

  

	2011			
	Fair Value	Level 1	Level 2	Level 3
Louisiana Hospital Investment Pool	\$ 1,023	\$ -	\$ -	\$ 1,023

Louisiana Hospital Investment Pool securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs Level 3	
	2012	2011
Beginning balance	\$ 1,023	\$ 1,007
Net unrealized gain (loss)	-	4
Redemptions	(550)	-
Purchases - interest income reinvested	5	12
Ending balance	\$ 478	\$ 1,023



AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 14. Long-Term Debt

A summary of long-term debt and capital lease obligations at December 31, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
<u>Long-term debt:</u>		
Bank of Commerce, Crowley, Louisiana dated July 8, 2009, with quarterly interest payments to begin on October of 2009 with a balloon payment of all outstanding principal and accrued interest at a rate of 5% annum due on July 8, 2010. On July 8, 2010, the loan was extended through December 31, 2010. On January 11, 2011, the interim note was converted to a term note with monthly payments of \$69 for 60 months beginning February 15, 2011 at a rate of 5%. The loan is secured by the collateral mortgage on building, dated February 1992, in the amount of \$5,000 and a commercial security agreement pledging all furniture and equipment.	\$ 1,291	\$ 2,034
Evangeline Bank and Trust Company, dated July 12, 2009, with monthly payments of \$28 for 60 months beginning February 2009 at a variable interest rate which is based on the independent index plus 1%; the rate at December 31, 2012 was 1.95% and 2.10% at December 31, 2011, secured by Hospital certificates of deposit.	308	630
Bank of Commerce, Crowley, Louisiana dated September 9, 2011, with principal and interest due at the maturity of the note on June 2, 2012. The note has a fixed interest rate of 3.15%. On June 2, 2012, the loan was extended to June 2, 2013 at an interest rate of 3.05% due at the term of the note. The note is secured by Hospital certificates of deposit.	1,249	1,417
Evangeline Bank and Trust Company, dated March 4, 2011, with principal and interest due at the maturity of the note on March 4, 2012. The note has a variable interest rate which is based on the independent index plus 1%; the rate at December 31, 2011 was 2.10%. On February 27, 2012, the note was extended to March 4, 2013. The interest rate at December 31, 2012 was 1.95%.	731	581
Bank of Commerce, Crowley, Louisiana dated February 28, 2012, with principal and interest due at the maturity of the note on November 9, 2012. The loan was extended to November 9, 2013 at an interest rate of 2.85% due at the term of the note. The note is secured by Hospital certificates of deposit.	<u>500</u>	<u>-</u>
Subtotal	<u>\$ 4,079</u>	<u>\$ 4,662</u>



AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 14. Long-Term Debt (Continued)

	<u>2012</u>	<u>2011</u>
Balance forwarded	\$ 4,079	\$ 4,662
Bank of Commerce, Crowley, Louisiana dated February 28, 2012, with principal and interest due at the maturity of the note on September 21, 2012. The loan was extended to September 21, 2013 at an interest rate of 2.90% due at the term of the note. The note is secured by Hospital certificates of deposit.	500	-
Bank of Commerce, Crowley, Louisiana dated February 28, 2012, with principal and interest due at the maturity of the note on November 10, 2012. The loan was extended to November 10, 2013 at an interest rate of 2.85% due at the term of the note. The note is secured by Hospital certificates of deposit.	500	-
Banclease Acceptance Corp, dated February 29, 2012, with monthly payments of \$6 for 36 months followed by a balloon payment of \$19 after the final installment. The interest rate on the note is 9.37%.	148	-
Johnson and Johnson Corp, dated August 23, 2012, with 24 monthly payments of \$.5 at a an interest rate of 5.70%.	10	-
Bausch and Lomb, dated November 14, 2011, with 36 monthly payments of \$2 at an imputed interest rate of 7%. The Hospital is committed to purchase 600 cataract packs over the 36 month period (Note 11). A portion of the payment for the commitment includes an installment payment on the note.	29	48
Capital lease obligation with Olympus Financial Services, dated May 18, 2011, with 12 monthly payments of \$8 at an imputed interest of 0%.	<u>-</u>	<u>50</u>
	\$ 5,266	\$ 4,760
Less current portion	<u>4,649</u>	<u>3,129</u>
Long-term obligation	<u>\$ 617</u>	<u>\$ 1,631</u>

AMERICAN LEGION HOSPITAL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands)

Note 14. Long-Term Debt (Continued)

Scheduled principal repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending December 31,	Mortgage Payable
2013	\$ 4,649
2014	587
2015	30
	<u>\$ 5,266</u>

Note 15. Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). The provisions were designed to increase the use of electronic health record ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling \$1,962 from Medicare and Medicaid in 2012 and \$1,074 from Medicaid for the year ended December 31, 2011, is included in other operating revenue in the accompanying consolidated statements of operations. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation compliance with the meaningful use criteria is subject to audit by the federal government.

Note 16. Subsequent Events

The Hospital evaluated the need for disclosures and/or adjustments resulting from subsequent events through May 28, 2013, the date the consolidated financial statements were available to be issued. This evaluation did not result in any subsequent events that necessitated disclosures and/or adjustments under general accounting standards.



**BROUSSARD, POCHÉ, LEWIS & BREAUX, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS

103 N. Ave. F  
Crowley, Louisiana 70526  
phone: (337) 783-5693  
fax: (337) 783-5115  
www.bplb.com

**Other Offices:**

Lafayette, LA  
(337) 988-4930

Opelousas, LA  
(337) 942-5217

New Iberia, LA  
(337) 364-4554

**Partners:**

Frank A. Stagno, CPA\*  
Scott J. Broussard, CPA\*  
L. Charles Abshire, CPA\*  
P. John Blanchet, III, CPA\*  
Martha B. Wyatt, CPA\*  
Mary A. Castille, CPA\*  
Joey L. Breaux, CPA\*  
Craig J. Viator, CPA\*  
John L. Istre, CPA\*  
Elizabeth J. Moreau, CPA\*  
Lonnie J. Hebert, CPA\*  
Robert M. DeRouen, Jr. CPA\*

**Directors:**

Jason P. LeBlanc, CPA  
Laurel L. Montagnet, CPA  
Valeri A. Grayson, CPA

**Retired Partners:**

Sidney L. Broussard, CPA 1925-2005  
Leon K. Poché, CPA 1984  
James H. Breaux, CPA 1987  
Erma R. Walton, CPA 1988  
George A. Lewis, CPA 1992  
Geraldine J. Wimberley, CPA 1995  
Lawrence A. Cramer, CPA 1999  
Ralph Friend, CPA 2002  
Donald W. Kelley, CPA 2005  
George J. Trappey, III, CPA 2007  
Terrel P. Dressel, CPA 2007  
Herbert Lemoine II, CPA 2008  
Mary T. Miller, CPA 2011

*Members of American Institute of  
Certified Public Accountants  
Society of Louisiana Certified  
Public Accountants*

\* A Professional Accounting Corporation

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
American Legion Hospital  
Crowley, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of American Legion Hospital (a nonprofit organization), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated May 28, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered American Legion Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Legion Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowley, Louisiana  
May 28, 2013

AMERICAN LEGION HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2012

We have audited the consolidated financial statements of American Legion Hospital as of and for the year ended December 31, 2012, and have issued our report thereon dated May 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the consolidated financial statements as of December 31, 2012 resulted in an unqualified opinion.

Section I. Summary of Auditor's Reports

a. Report on control and compliance Material to the Financial Statements

Internal Control		
Material Weakness	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Control deficiencies identified that are not considered to be material weakness	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Compliance		
Compliance material to financial statements	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Was a management letter issued	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Section II. Financial Statement Findings

No matters were reported.

AMERICAN LEGION HOSPITAL  
SCHEDULE OF PRIOR YEAR FINDINGS  
Year Ended December 31, 2012

Section I. Internal Control and Compliance Material to the Financial Statements

No matters were reported in the prior year's report.

Section II. Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III. Management Letter

The prior year's report did not include a management letter.